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Organization & Compensation of Boards of Directors

by Edwin S. Mruk and James A. Giardina

ARTHUR YOUNG

Sponsored by the Financial Executives Institute

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Contents

Foreword 6

Scope and Method of Study 7
- Major Industry Groupings 7
- Specific Industry Classifications 8

Overview 10
- Historical Perspective 10
- Major Findings 11

Results of the Study 14
- Organization of the Board 14
  - Composition of the Board 14
  - Number of Meetings 16
  - Information Provided to Board Members 18
  - Committees of the Board 19
- Board Compensation 27
  - Companies Paying Both Retainers and Meeting Fees 28
  - Companies Using the Retainer-Only Method 29
  - Companies Using the Fee-Only Method 31
  - Compensation of Management Directors 31
  - Director Expenses and Benefits 31
  - Committee Compensation 32

List of Tables

Table		Page
1	**Primary Responsibilities of the Board**	**11**
2	**Influence of the Board on Key Management Decisions**	**12**
	Average Composition of the Full Board	
3	Manufacturing Group	14
4	Nonmanufacturing Group	14
5	Financial Services Group	15
6	Individual Industries	16
7	Top Executives Serving on the Board	17
	Average Number of Full Board Meetings and Time Spent by Directors	
8	Manufacturing Group	17
9	Nonmanufacturing Group	17
10	Financial Services Group	18
11	Individual Industries	18
12	**Information Provided to Board Members**	**19**
	Prevalence of Committees	
13	Manufacturing Group	20
14	Nonmanufacturing Group	21
15	Financial Services Group	21
	Average Composition of Committees and Average Number of Meetings	
16	Manufacturing Group	22
17	Nonmanufacturing Group	22
18	Financial Services Group	23
19	**Sources of New Directors**	**25**
	Compensation of Nonmanagement Directors	
20	Manufacturing Group	27
21	Nonmanufacturing Group	28
22	Financial Services Group	29
23	Individual Industries	30
24	**Compensation of Management Directors**	**32**
	Expenses and Insurance Benefits Provided to Directors	
25	Manufacturing Group	33
26	Nonmanufacturing Group	33
27	Financial Services Group	34
28	Individual Industries	35
	Other Benefits Provided to Directors	
29	Manufacturing Group	36
30	Nonmanufacturing Group	36
31	Financial Services Group	37
32	Individual Industries	38
	Compensation of Committees (Nonmanagement Directors)	
33	Manufacturing Group	39
34	Nonmanufacturing Group	39
35	Financial Services Group	40
	Compensation of Committees (Chairmen)	
36	Manufacturing Group	40
37	Nonmanufacturing Group	40
38	Financial Services Group	40

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Foreword

This study presents the findings of the 1983 survey of the organization and compensation of Boards of Directors. Edwin S. Mruk and James A. Giardina, partners of Arthur Young, conducted the study under the sponsorship of the Financial Executives Institute.

This report is based on data provided by more than 600 publicly held corporations. Approximately one-half of the responding companies had more than $500 million in sales (or $2 billion in assets for financial services companies). These corporations represent virtually every industry classification.

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Scope and Method of Study

The information for this year's study was accumulated by questionnaire. Participation was solicited from the corporate membership of the Financial Executives Institute as well as from other companies in a wide range of industries. In total, more than 800 companies responded to the survey, including more than 600 publicly held corporations. This report is based on the data provided by the publicly held companies only. The participants provided information about the organization and compensation of their Boards of Directors and Board committees. They also provided information about their Board members' views on key issues, such as Board responsibilities and areas of influence.

Each response was reviewed for completeness and consistency to ensure accurate processing and appropriate use of information. Participants were asked to provide compensation data for their directors for the years 1981, 1982, and 1983. Compensation data for 1983 reflect compensation levels in effect as of February 1, 1983. Compensation amounts reported are the amounts actually earned on an annual basis, regardless of whether the amounts were deferred in whole or in part.

Major Industry Groupings

Information concerning the organization and compensation practices of Boards of Directors was reported by companies representing a large number of industries. These industries were grouped according to three major types, which were then subdivided into 25 specific industries.

The Manufacturing Group

This group of industries includes companies engaged in the manufacture of one or more products as their principal form of business. Although study information for this group was gathered for companies comprising a large number of industries, the analyses are heavily weighted by companies in the following classifications:

Durable Goods
Basic Materials
Electrical Machinery
Fabricated Metal Products
Instruments
Machinery
Primary Metals
Transportation Equipment

Nondurable Goods
Chemicals
Food Products
Paper Products
Petroleum
Publishing
Textiles and Apparel

The Nonmanufacturing Group

This group of industries includes companies engaged in the performance of one or more services as their principal form of business. While this group, by definition, includes a vast number of industries, the analyses presented in this report are weighted heavily by companies in the following classifications:

Business Services
Communications
Construction and Contracting
Mining
Retail Sales
Transportation
Utilities
Wholesale Trade

The Financial Services Group

This group of industries includes companies engaged in the performance of one or more financial services and companies whose income is derived primarily from the management of assets. The analyses for this group are weighted by companies in the following industry classifications:

Banking (Commercial)
Banking (Thrift Institutions)
Financial Holding and Investment
Insurance

Specific Industry Classifications

The 25 industries that have been included in this study are defined as follows:

Banking (Commercial)
Includes commercial banks, stock savings banks, and trust companies. Does not include mutual savings banks and other credit agencies. Standard Industrial Classification Codes (*): 6000-6028.

Banking (Thrift Institutions)
Includes mutual savings banks and credit agencies, such as savings and loan associations, personal and business credit institutions, and mortgage bankers and brokers. Standard Industrial Classification Codes: 6032-6199.

Basic Materials
Companies engaged in the manufacture or production of rubber and plastic products; stone, glass, and clay products, and lumber; and furniture and furniture fixtures. Does not include metal mining. Standard Industrial Classification Codes: 2400-2599, 3000-3099, 3200-3299.

Business Services
Includes companies rendering services such as advertising, management consulting, and commercial research; and services rendered by engineers, architects, accountants, and writers. Standard Industrial Classification Codes: 7100-7399, 8900-8999.

Chemicals
Companies engaged in the processing of chemicals and chemical products; includes pharmaceuticals. Standard Industrial Classification Codes: 2800-2899.

Communications
Includes companies furnishing point-to-point communication services, whether by wire or radio, and whether intended to be received aurally or visually. Standard Industrial Classification Codes: 4800-4899.

Construction and Contracting
Includes all companies generally contracting for heavy construction: building, highway, bridge, tunnel, sewer, pipeline, power line, plumbing, electrical, carpentry, etc.; and other miscellaneous trade classifications, such as glazing, roofing, sheetmetal work, etc. Standard Industrial Classification Codes: 1500-1799.

Electrical Machinery
Companies engaged in the manufacture of electrical machinery, equipment, and supplies. Standard Industrial Classification Codes: 3600-3699.

Fabricated Metal Products
Companies engaged in fabricating ferrous and nonferrous metal products, such as metal cans, tinware, hand tools, general hardware, fabricated structural metal products, etc. Does not include manufacturers of ordnance, machinery, or transportation equipment. Standard Industrial Classification Codes: 3400-3499.

Financial Holding and Investment
Companies engaged in the management of assets as their principal form of business, as well as holding companies having subsidiaries whose principal businesses represent more than one area of financial service. Standard Industrial Classification Codes: 6700-6799.

Food Products
Companies engaged in the preparation of meat products, bakery products, beverages, confectionery and related products, grain mill products, and other food products. Standard Industrial Classification Codes: 2000-2099.

Instruments
Companies engaged in the manufacture of scientific and control instruments, photographic and optical goods, and watches and clocks. Standard Industrial Classification Codes: 3800-3899.

Insurance
Companies engaged in underwriting life, accident, health, fire, marine, casualty, and financial responsibility insurance. Standard Industrial Classification Codes: 6311-6399.

Machinery
Companies engaged in the manufacture of heavy machinery, such as steam engines, farm machinery and

(*) Standard Industrial Classification Codes provide a means of classifying companies into industry groupings. They are standardized four-digit codes prepared by the Technical Committee on Industrial Classification of the Bureau of the Budget, Executive Office of the President.

equipment, construction machinery, elevators, machine tools, textile machinery, etc. Does not include transportation equipment. Standard Industrial Classification Codes: 3500-3599.

Mining
Companies engaged in the mining of metal, coal, and other minerals. Also includes related mining and energy extractive services. Standard Industrial Classification Codes: 1000-1499.

Paper Products
Companies engaged in the manufacture of pulp, paper and paperboard, and converted products such as coated paper, paper bags, paper boxes, and envelopes. Does not include abrasive, carbon, or photosensitized paper products. Standard Industrial Classification Codes: 2600-2699.

Petroleum
Companies engaged in petroleum refining. Standard Industrial Classification Codes: 2900-2999.

Primary Metals
Companies engaged in metals processing such as smelting, refining, rolling, drawing, extruding, forging, casting, and blast furnace and foundry operations. Standard Industrial Classification Codes: 3300-3399.

Publishing
Companies engaged in the printing and publishing of books, periodicals, and newspapers or in commercial printing, engraving, typesetting, photoengraving, electrotyping, book binding, greeting card and business form publishing, etc. Standard Industrial Classification Codes: 2700-2799.

Retail Sales
Retail outlets marketing general merchandise, food products, automobiles, apparel, furniture, and home furnishings. Also includes restaurants. Standard Industrial Classification Codes: 5300-5999.

Textiles and Apparel
Companies engaged in basic textile production (yarn production, dyeing, and cloth printing) and manufacture of apparel and other products using basic textiles as raw material. Also includes manufacturers of shoes and leather goods. Standard Industrial Classification Codes: 2200-2399, 3100-3199.

Transportation
Railroads; motor, air, and water transportation companies; and motor freight transportation companies. Standard Industrial Classification Codes: 4000-4799.

Transportation Equipment
Companies engaged in manufacturing equipment for transportation of passengers and cargo by land, air, and water. Includes the manufacturers of motor vehicles, aircraft, boats, and railroad equipment. Standard Industrial Classification Codes: 3700-3799.

Utilities
Companies engaged in distribution of electricity, gas, and water; and manufacturers of sewage and irrigation systems. Standard Industrial Classification Codes: 4900-4971.

Wholesale Trade
Companies engaged as jobbers, distributors, or wholesalers of a variety of products. Standard Industrial Classification Codes: 5000-5299.

Overview

Historical Perspective

During the 1970s, a great deal of attention was focused on the governance of publicly held companies, particularly the role of the Board of Directors. Although the spotlight on corporate oversight has diminished somewhat in the past few years, public accountability is still of great concern to a number of public interest groups. In fact, the topic continues to be a major concern of many corporations, as indicated by the data in this report.

In addition, the SEC still requires publicly held companies to disclose specific information about how they govern themselves. For example, publicly held companies must disclose whether their Boards have Audit, Compensation, and Nominating Committees and the membership, number of meetings, and function of each of those committees. Further, the SEC requires disclosure of the names of Board members who attended less than 75% of scheduled Board meetings and meetings of committees on which they served. The SEC also requires disclosure of the reasons furnished by a director who resigns or does not stand for reelection as a result of disagreement with management over operations, policies, or practices, if the director resigning requests that the information be made public. Finally, public companies must reveal any close family connections between directors or director candidates and company executives, specified supplier and customer relationships, and financial and legal ties to the firm.

Recommendations have been made by many interested parties about how the Board should be organized. One of the most comprehensive set of recommendations is the *Corporate Director's Guidebook*, which was developed in 1976 (and revised in 1978) by the Corporation, Banking, and Business Law Section of the American Bar Association. This guidebook includes a proposed model of standards of conduct, composition, and committee structure for Boards of Directors of publicly held corporations. According to the guidebook, an individual, by assuming directorship of a public corporation, commits allegiance to the enterprise and acknowledges that the best interests of the corporation and its shareholders must prevail over any individual interest he or she holds. The director assumes a duty to act prudently in fulfilling the important tasks of monitoring and directing the activities of corporate management. The guidebook also suggests that the corporation consider three broad objectives in determining the size of the Board: The Board should be large enough to allow nonmanagement directors to staff a minimum of three working Board committees, namely the Audit, Compensation, and Nominating Committees; nonmanagement members should constitute a majority of the Board; and finally, the Board should function "effectively" in terms of discussion and decision making.

Major Findings

Our analysis of the data provided by the 600 publicly held company participants indicates that many of the suggestions of the 1970s in the area of corporate governance, and particularly those described above, have taken hold. The average Board of Directors currently has twelve members, 70% of whom are classified as independent nonmanagement directors. Whereas the quarterly Board meeting was the norm a few decades ago, the full Board now meets, on average, seven times a year. Further, Board committees are more prevalent than they were only ten years ago. Most companies have an Audit Committee (95%) and a Compensation Committee (88%), and Nominating Committees are becoming more and more prevalent. In a study of Boards of Directors conducted by the Conference Board in 1973, approximately 7% of the companies participating in the study had a Nominating Committee. Forty-eight percent of the companies participating in our study reported having a Nominating Committee. Among the larger companies, Nominating Committees were even more prevalent.

Our study also showed that the role of the Board of Directors has changed dramatically. As viewed by participants in this year's study, the primary responsibility of the Board is to counsel top management. This is followed closely by the responsibility to assure the integrity of the company's operations, to assure that there is a strategic plan for the future, and to monitor the performance of the chief executive officer (CEO).

The areas that have been traditionally assumed to be the role of the Board, namely, assuring management succession and serving the public interest, while still high on the list of primary responsibilities, did not rank as high as the items listed above. Table 1 shows the percentage of companies ranking the various Board responsibilities among the top three priorities.

Table 1
PRIMARY RESPONSIBILITIES OF THE BOARD:
Percentage of Companies Ranking Each Item as First, Second, or Third Priority

RESPONSIBILITY	Manufacturing Group	Nonmanufacturing Group	Financial Services Group
Counsel Top Management	65%	70%	59%
Assure the Integrity of the Company's Operations	52	54	51
Assure a Strategic Plan for the Future	51	51	49
Monitor the Performance of the CEO	51	42	54
Assure Management Succession	38	36	39
Monitor Financial Reporting	18	21	17
Serve the Public Interest	12	10	13
Represent the Company as Required	5	6	3
Assure Compliance with Government Regulations	1	1	5
Monitor Product Integrity	0	1	0

Directors' own views of their responsibilities do not differ significantly from management's views. A study of the views of individual directors, published in 1981 by Arthur Young Executive Resource Consultants, reported that directors have similar views concerning their primary responsibilities.[1]

Since today's Board of Directors is more independent of management, it has greater influence over management than the Board of a few years ago. The greatest influence is in the areas of compensation of top management and mergers and acquisitions. Not surprisingly, these items also come under significant shareholder and public scrutiny. On the other hand, the Board exercises a more moderate influence over the selection of senior executives (other than the CEO), long-range planning, and capital expenditures. These items are subject to less public and shareholder exposure. (See Table 2.)

Table 2
INFLUENCE OF THE BOARD ON KEY MANAGEMENT DECISIONS: Percentage of Companies Indicating That the Board Has Strong Influence

DECISION AREA	Manufacturing Group	Nonmanufacturing Group	Financial Services Group
Compensation of Top Management	76%	69%	81%
Mergers and Acquisitions	68	56	52
Selection of Senior Executives	29	28	24
Capital Expenditures	23	23	14
Long-Range Planning	20	20	24

Today's directors are also better informed concerning details of company operations than they were a decade ago. A vast amount of information is provided to directors on a regular basis to help them carry out their responsibilities and to prepare them for Board and committee meetings. In addition to the agenda, this information includes more detailed financial reports and committee reports. Furthermore, many companies provide additional information such as employee newsletters, marketing studies, and personnel notices to keep the Board informed about company activities. In addition new directors are given even more detailed information as orientation, so they can make effective contributions to the company. For example, directors are often provided with articles of incorporation, committee descriptions, historical financial results, the long-range plan, and a basic data book.

The increased responsibility, as well as the increased amount of information, has had an impact on the amount of time spent by directors on Board activities. The participants in this year's study reported that nonmanagement directors spend an average of eight hours a month on Board activities. In many instances, the number of hours devoted to Board responsibilities is considerably higher. This time commitment will continue to rise in the future as directors take on an even stronger oversight role in key areas of management decision making.

As for compensation, it is reasonable to expect that compensation paid to Board members would reflect the increasing demands being placed on the typical Board member and the director's changing role. But this doesn't seem to be the case.

In recent years pay practices indicate that changes in nonmanagement

[1] In that study, "assuring the integrity of the company's operations" was viewed by the director as the primary responsibility of the Board. The most significant difference in perception of responsibilities between the two studies concerned the Board's responsibility to monitor financial reporting. Management views the Board's responsibility in that area as much greater than perceived by the director.

director compensation are probably influenced more by increases in executive compensation than by what is an appropriate amount to pay such directors for the additional effort rendered. For example, in 1980 nonmanagement director compensation increased by 13% while executive pay increased by 14%. In 1982 lower corporate performance, inflation, and demand for executives have reduced the pay increases of top executives to 8%. Similarly, the pay increase of nonmanagement directors declined to 6% in 1982.

Changes in nonmanagement director compensation may be as sensitive to corporate performance as are changes in executive base salaries. Among companies with a positive net income in 1982, nonmanagement director compensation increased by 6.4%. Among companies with a loss in income in 1982, nonmanagement director compensation increased by only 3.4%

In this year's study, the average nonmanagement director who is paid both a retainer and meeting fee receives almost $14,000 if all Board meetings are attended. This director can expect to earn an additional $3,710 if he or she serves on two committees and attends all meetings. Total compensation, therefore, amounts to approximately $1,389 on a per-diem basis.

It has been suggested that director compensation be somewhat comparable to CEO compensation. In other words, it should be equivalent to the per-diem compensation paid to the CEO. However, our findings show that in companies of the same size, directors are paid significantly less than the average CEO. For example, data reported for the CEO in the eleventh edition of *Executive Compensation*, our most recent study, show that in companies in the $2-5 billion sales category, the CEO receives 20% more on a per-diem basis than a director serving on the Board of a company in the same sales category.

Results of the Study

Organization of the Board

Composition of the Board

Overall, the size of corporate Boards has remained relatively stable during the past decade. Boards today average twelve members, compared to eleven members reported in the 1973 study conducted by the Conference Board.

Since our last study (1981), there has been a slight change in Board size within the industry groups. Both manufacturing and nonmanufacturing companies have reduced slightly the size of their Boards, reporting an average of eleven members. Both groups previously reported having twelve members. Financial services company Boards remain the largest and they continue to grow in size. They average eighteen members, compared to sixteen members reported earlier. This finding indicates that Boards of Directors in this industry continue to play an important role in expanding the customer base. Executives of the largest customers and influential members of the community frequently serve on the Boards of commercial banks and thrift institutions.

Board size tends to increase gradually as company size increases (see Tables 3 through 5). As in our previous studies, this trend was evident in all three industry groups. Overall, companies with less than $1 billion in sales or assets reported an average Board size of ten members, while companies with sales or assets of over $1 billion reported an average Board size of fifteen members.

On an individual industry basis, Board size varies significantly, even within the same industry group (see Table 6). In the manufacturing and nonmanufacturing industry groups, the smallest Boards were reported in the instruments industry (an average of nine members), while the largest Boards were reported in the petro-

Table 3
MANUFACTURING GROUP:
Average Composition of the Full Board, by Sales Volume

SALES VOLUME	Number of Directors	Management Directors	Nonmanagement Directors
Under $25 Million	6	33%	67%
$25–50	8	30	70
$50–100	8	33	67
$100–200	9	32	68
$200–500	10	34	66
$500–1 Billion	12	29	71
$1–2	12	31	69
$2–5	14	29	71
$5–10	13	24	76
Over $10 Billion	17	38	62

Table 4
NONMANUFACTURING GROUP:
Average Composition of the Full Board, by Sales Volume

SALES VOLUME	Number of Directors	Management Directors	Nonmanagement Directors
Under $25 Million	6	50%	50%
$25–50	8	40	60
$50–100	8	27	73
$100–200	9	34	66
$200–500	11	30	70
$500–1 Billion	12	25	75
$1–2	12	29	71
$2–5	14	34	66
$5–10	18	30	70
Over $10 Billion	16	27	73

leum and transportation industries (an average of fourteen and fifteen members, respectively). The difference in Board size is undoubtedly related to the average size of the companies in each segment. Companies in the instruments industry, for example, were among the smallest in our survey; companies in the petroleum industry were among the largest. Within the financial services industry group, the largest Boards were in banking—commercial banks averaged twenty members, thrifts, nineteen—and the smallest were found in insurance, which averaged thirteen members.

Overall, 70% of the Board members are nonmanagement directors. This percentage is virtually the same as in our 1981 study and greater than the 65% reported in our 1979 study. This finding marks a fulfillment of the recent movement toward increased representation by nonmanagement members on the Boards of publicly held companies, a trend that began in the early 1970s when the SEC began focusing on the need for independently functioning Audit Committees. The trend continued as corporations sought ways to respond to public criticism of corporate behavior and pressure from shareholder groups. Because there is an advantage in keeping the Board to a manageable size with some representation by management, a two-thirds to three-quarters majority of nonmanagement directors may represent an efficient Board size.

Table 5
FINANCIAL SERVICES GROUP:
Average Composition of the Full Board, by Assets

ASSETS	Number of Directors	Management Directors	Nonmanagement Directors
Under $50 Million	13	15%	85%
$50–100	8	34	66
$100–200	9	23	77
$200–500	13	22	78
$500–1 Billion	15	16	84
$1–2	19	17	83
$2–5	19	19	81
$5–10	19	17	83
Over $10 Billion	25	18	82

As in our earlier studies, the financial services group reported the highest proportion of nonmanagement directors—81%—compared to 68% in the manufacturing group and 69% in the nonmanufacturing group. There were also significant differences among individual industries. The banking and insurance industries reported the highest percentage of nonmanagement directors (82% in commercial banking, 79% in thrift institutions, and 83% in insurance), while the construction and contracting and wholesale trade industries reported the lowest percentages (56% and 57%, respectively).

On average, only 8% of all Board members were classified as "affiliated directors." That is, they have recently engaged in, or propose to engage in, transactions that are material to the corporation, or they have close family ties to a key member of management. The relatively small number of affiliated directors is another indication of the independence of the Board. The smallest percentage of affiliated directors, 5% of total members, was reported in the financial services industry group. The manufacturing group reported 9% and the nonmanufacturing group reported 6% of total Board members. The proportion of affiliated directors varied widely among individual industries, ranging from a low of 3% in the utilities and commercial banking industries to a high of 25% in the insurance industry.

On average, 30% of Board members are management directors. The CEO serves on the Board of virtually every company. Other management directors include the chief operating officer, the top financial officer, and operating group vice presidents (see Table 7).

Table 6
INDIVIDUAL INDUSTRIES:
Average Composition of the Full Board

	Number of Directors	Management Directors	Nonmanagement Directors
MANUFACTURING GROUP			
Durable Goods			
Basic Materials	10	29%	71%
Electrical Machinery	10	31	69
Fabricated Metal Products	10	32	68
Instruments	9	28	72
Machinery	10	30	70
Primary Metals	13	26	74
Transportation Equipment	12	26	74
Nondurable Goods			
Chemicals	13	37	63
Food Products	12	34	66
Paper Products	12	29	71
Petroleum	14	37	63
Publishing	11	40	60
Textiles and Apparel	11	36	64
NONMANUFACTURING GROUP			
Business Services	10	32	68
Communications	13	29	71
Construction and Contracting	11	44	56
Mining	10	32	68
Retail Sales	11	39	61
Transportation	15	28	72
Utilities	12	23	77
Wholesale Trade	10	43	57
FINANCIAL SERVICES GROUP			
Banking (Commercial)	20	18	82
Banking (Thrift Institutions)	19	21	79
Financial Holding and Investment	14	23	77
Insurance	13	17	83

Number of Meetings

Meeting frequency has not changed significantly in the past few years. On average, the full Board meets seven times a year (see Tables 8 through 11). The financial services group reported nine meetings per year, more than either the manufacturing or nonmanufacturing group, both of which averaged seven meetings per year. The greater frequency of meetings in the financial services industry is a result of the need to monitor loans and review the credit status of major customers on a frequent basis.

In both the manufacturing and nonmanufacturing industry groups, meeting frequency increased with company size. The largest companies (sales volumes of over $2 billion) reported the greatest average number of meetings (eight to eleven). But in the financial services industry group, it was the medium-sized companies (those with assets of $500 million to $2 billion) that reported having the most frequent meetings (eleven).

Meeting frequency also varies on an individual industry basis. The Boards of petroleum companies and commercial banks meet more frequently than the Boards of other industries. These companies' Boards meet an average of ten times per year, while the Boards of the construction and contracting, wholesale trade, and insurance industries meet only five times a year.

Because of advances in telecommunications, long distance Board meetings are now possible. Thirteen percent of the participating companies reported holding scheduled Board meetings by conference call. These companies reported having two such "meetings" per year.

Boards are satisfied with their current meeting schedules. More than 86% of the companies reported that they plan to continue meeting on the same schedule.

Overall, companies reported that the average director spends eight hours monthly on Board activities, including committee duties. Time spent on Board activities increased with company size, although there was little variation by industry group. Directors of companies with less than $1 billion in sales or assets averaged seven hours monthly on Board activities, while directors of companies with over $1 billion in sales or assets spent approximately ten hours monthly on their Board activities.

Table 7

TOP EXECUTIVES: Percentage of Companies Having Each Executive on the Board

POSITION	Manufacturing Group	Nonmanufacturing Group	Financial Services Group
Chief Executive Officer	99%	99%	99%
Chief Operating Officer	50	52	47
Top Financial Officer	40	38	14
Group Vice Presidents	21	16	9
General Counsel/Top Legal Executive	7	9	5
Top Manufacturing Executive	13	4	2
Top International Executive	10	3	1
Top Marketing Executive	8	4	1
Top Human Resources Executive	4	2	0
Top Strategic Planning Executive	3	2	0
Top Sales Executive	3	1	0
Other	41	42	52

Table 8

MANUFACTURING GROUP: Average Number of Full Board Meetings and Time Spent by Directors, by Sales Volume

SALES VOLUME	Number of Meetings per Year	Number of Hours per Month
Under $25 Million	6	5
$25–50	6	5
$50–100	5	6
$100–200	6	7
$200–500	6	7
$500–1 Billion	7	7
$1–2	9	9
$2–5	9	10
$5–10	8	20
Over $10 Billion	11	15
All Levels	7	8

Table 9

NONMANUFACTURING GROUP: Average Number of Full Board Meetings and Time Spent by Directors, by Sales Volume

SALES VOLUME	Number of Meetings per Year	Number of Hours per Month
Under $25 Million	4	3
$25–50	4	4
$50–100	6	6
$100–200	6	6
$200–500	6	7
$500–1 Billion	9	7
$1–2	8	9
$2–5	8	7
$5–10	8	15
Over $10 Billion	11	*
All Levels	7	7

*Insufficient data

Information Provided to Board Members

Companies provide their directors with information relating both to corporate governance and Board activities as well as to the day-to-day operations of the company (see Table 12). Before the meeting most companies provide Board members with the meeting agenda and financial reports. Many companies also provide copies of resolutions and committee reports and furnish a variety of operations-related items, such as employee newsletters and marketing brochures, as well as security analysts' reports, industry data and comparisons, newspaper clippings, and press releases.

Table 10
FINANCIAL SERVICES GROUP: Average Number of Full Board Meetings and Time Spent by Directors, by Assets

ASSETS	Number of Meetings per Year	Number of Hours per Month
Under $50 Million	7	*
$50–100	6	13
$100–200	7	6
$200–500	9	7
$500–1 Billion	11	6
$1–2	11	6
$2–5	8	6
$5–10	9	7
Over $10 Billion	9	8
All Levels	9	7

*Insufficient data

Table 11
INDIVIDUAL INDUSTRIES: Average Number of Full Board Meetings and Time Spent by Directors

	Number of Meetings per Year	Number of Hours per Month
MANUFACTURING GROUP		
Durable Goods		
Basic Materials	6	7
Electrical Machinery	6	8
Fabricated Metal Products	7	7
Instruments	7	8
Machinery	7	7
Primary Metals	9	9
Transportation Equipment	8	8
Nondurable Goods		
Chemicals	8	8
Food Products	7	12
Paper Products	7	10
Petroleum	10	14
Publishing	6	5
Textiles and Apparel	6	5
NONMANUFACTURING GROUP		
Business Services	6	6
Communications	7	5
Construction and Contracting	5	7
Mining	6	7
Retail Sales	6	7
Transportation	7	12
Utilities	9	7
Wholesale Trade	5	5
FINANCIAL SERVICES GROUP		
Banking (Commercial)	10	6
Banking (Thrift Institutions)	6	9
Financial Holding and Investment	8	7
Insurance	5	6

In addition to orientation visits to key company locations, new directors are introduced to the company and their Board duties through a wide range of information. The majority of companies provide their new directors with copies of the corporation's articles of incorporation and bylaws, descriptions of principal committees of the Board, and historical financial results. In addition, many companies provide information on director duties, including copies of insider trading rules and reporting regulations, conflict-of-interest policies, guides on duties and responsibilities of directors, and corporate codes of conduct.

Table 12
INFORMATIONAL MATERIAL:
Percentage of Companies Providing Information to Board Members

	Manufacturing Group	Nonmanufacturing Group	Financial Services Group
Provided Regularly:			
Meeting Agenda	94%	86%	64%
Financial Reports	90	89	69
Standing Committee Reports	36	41	40
Resolutions	60	51	39
Special Committee Reports	41	41	46
Other	24	19	18
Provided as Additional Information:			
Employee Newsletters	40	50	33
Marketing Brochures	14	8	19
Personnel Notices	18	6	15
Mailings to Customers	6	13	30
Other	44	44	33
Provided to New Directors:			
Articles of Incorporation, Bylaws, etc.	79	80	73
Job Descriptions for CEO and Other Key Officers	29	28	12
Descriptions of Principal Committees of the Board	76	74	66
Historical Financial Results	79	86	72
Key Provisions of Major Capital Commitments	20	24	10
Basic Data Book	49	37	39
Long-Range Plan	41	35	21
Status of Litigation	26	30	10
Other	21	13	27

Committees of the Board

As the proportion of nonmanagement directors on Boards has grown, so has the percentage of corporate Boards adopting the committee form of organization. Committees have become essential to the efficient functioning of the Board. They enable nonmanagement Board members to become more involved in such areas as financial reporting and internal financial controls, Board composition, and the selection and compensation of key management members. Committees allow nonmanagement Board members to better manage the increasing flow of information and the growing complexity of issues. Board service makes heavy demands on the nonmanagement director's time, and this, too, has contributed to the widespread adoption of the committee structure.

The most prevalent committees are the Audit, Compensation, and Executive Committees. Nominating and Finance Committees also were reported frequently. Each of the five committees was more prevalent this year than it was in our 1981 study. Ninety-five percent of the compa-

nies in this year's study have an Audit Committee, compared to 88% in the previous study; 88% have a Compensation Committee, compared to 74% in the previous study; 48% have a Nominating Committee, compared to 34% in the previous study; 66% have an Executive Committee, compared to 64% in the previous study; and 24% have a Finance Committee, compared to 21% in the previous study.

Looking back to the early 1970s, we can see that committees are much more prevalent today than they were then. The Conference Board's 1973 study reported that only about 50% of their participating companies had an Audit Committee, 66% had a Compensation Committee, and 7% had a Nominating Committee.

In this year's study, many companies reported having several other committees as well. Approximately 40% of the respondents said that they had at least one other committee, and more than 10% had two or more other committees. These included such committees as the Investment Committee, Long-Range/Strategic Planning Committee, Legislative Committee, Science and Technology Review Committee, Management Succession Committee, Pension/Benefits Committee, and the Committee on Corporate Directors.

Prevalence of committees varies by company size. Because of the more complex responsibilities of their Boards, as well as stock exchange pressures and SEC disclosure requirements, larger companies are more likely to have committees. Prevalence of committees also varies by industry group. Because of the larger average size of their Boards and the relatively greater volume of operating business decisions requiring Board approval, financial services companies, for example, are more likely to have Executive Committees.

Tables 13 through 15 show the prevalence of each committee within the industry groups by company size. Tables 16 through 18 show the average composition and average number of meetings per year of each committee for each industry group.

Audit Committee

The Audit Committee was found to be the most common committee, regardless of industry or company size. Ninety-five percent of the respondents (compared to 88% in 1981 and 75% in 1979) reported having this committee; the industry groups varied only slightly in this regard.

Table 13
MANUFACTURING GROUP: Prevalence of Committees, by Sales Volume

SALES VOLUME	Audit	Compensation	Nominating	Executive	Finance	Other
Under $25 Million	91%	73%	36%	55%	18%	18%
$25–50	73	73	18	23	5	14
$50–100	95	76	14	43	10	19
$100–200	100	91	25	46	7	25
$200–500	96	90	49	62	18	32
$500–1 Billion	98	95	51	80	34	39
$1–2	100	100	75	84	16	50
$2–5	95	88	60	72	46	65
$5–10	100	88	100	88	63	75
Over $10 Billion	100	100	94	88	35	65
All Levels	96	88	46	62	22	38

Table 14
NONMANUFACTURING GROUP: Prevalence of Committees, by Sales Volume

SALES VOLUME	Audit	Compensation	Nominating	Executive	Finance	Other
Under $25 Million	60%	40%	20%	20%	0%	0%
$25–50	82	73	18	45	0	9
$50–100	85	77	38	54	23	46
$100–200	86	86	43	64	14	14
$200–500	97	91	50	69	19	25
$500–1 Billion	100	94	56	67	39	39
$1–2	96	85	58	62	31	50
$2–5	100	97	71	71	39	35
$5–10	100	50	75	100	50	50
Over $10 Billion	100	100	100	67	67	67
All Levels	94	86	53	64	27	33

Table 15
FINANCIAL SERVICES GROUP: Prevalence of Committees, by Assets

ASSETS	Audit	Compensation	Nominating	Executive	Finance	Other
Under $50 Million	100%	100%	0%	67%	33%	67%
$50–100	100	67	0	67	0	0
$100–200	100	100	60	80	20	20
$200–500	100	71	14	86	14	43
$500–1 Billion	100	100	67	67	50	50
$1–2	90	70	30	80	20	70
$2–5	100	96	43	87	26	65
$5–10	87	80	60	73	27	47
Over $10 Billion	100	86	79	100	29	71
All Levels	97	86	48	83	26	56

Even among the smallest companies—those with sales or assets below $50 million—80% reported having an Audit Committee. This committee's prevalence, in part, reflects the requirement established for companies whose stock is traded on the New York Stock Exchange, as well as the interest shown by the SEC in the committee's membership and activities.

On average, the Audit Committee is composed of four members and meets three times a year. Ninety-eight percent of the Audit Committee members were nonmanagement directors. These figures did not vary significantly by industry, nor have they changed since our first study four years ago.

Over one-half of the respondents cited "assuring the integrity of the company's operations" as a prime responsibility of the Board. As the communications link between the Board of Directors and the independent auditors, the Audit Committee plays a key role in fulfilling this responsibility. According to the American Bar Association's *Corporate Director's Guidebook*, the Audit Committee should have primary responsibility for the following functions:

- To recommend the appointment of independent auditors.
- To consult with the persons chosen to be the independent auditors with regard to the plan of the audit.
- To review, in consultation with the independent auditors, their report of audit or proposed report of audit and the accompanying management letter.
- To consult with the independent auditors regarding the adequacy of internal controls.

While working closely with both management and the independent auditors, the Audit Committee should remain sufficiently detached from both to be able to objectively evaluate their positions and, ultimately, their competence and character. The Audit Committee should seek out the opinions of company management about the quality of audit personnel, their efficiency in planning and conducting the audit, and their ability to identify and help correct deficiencies in the accounting and internal controls.

Table 16
MANUFACTURING GROUP:
Average Composition of Committees and Average Number of Meetings per Year

COMMITTEE	Number of Directors	Management Directors	Nonmanagement Directors	Number of Meetings per Year
Audit	4	2%	98%	3
Compensation	4	6	94	3
Nominating	5	17	83	2
Executive	5	48	52	5
Finance	5	28	72	3
Other	4	23	77	3

Table 17
NONMANUFACTURING GROUP:
Average Composition of Committees and Average Number of Meetings per Year

COMMITTEE	Number of Directors	Management Directors	Nonmanagement Directors	Number of Meetings per Year
Audit	4	3%	97%	3
Compensation	4	6	94	3
Nominating	5	15	85	2
Executive	5	45	55	5
Finance	5	25	75	5
Other	5	20	80	3

In turn, the auditors should disclose to the Audit Committee whether management has an information system designed to generate the input needed for sound decision making and whether that system is functioning properly. They can and should provide assurance within reasonable limits that the corporation's policies—as well as legal and ethical codes—are being honored in practice by management and employees and that internal controls are adequate and functioning.

In addition to its responsibilities regarding the independent auditors, the Audit Committee has an important role in monitoring the internal control environment in its own right. The committee has become increasingly involved with the internal audit

function, particularly since the Foreign Corrupt Practices Act of 1977. The committee has also become involved in monitoring the quality and functions of the financial management group.

Table 18
FINANCIAL SERVICES GROUP:
Average Composition of Committees and Average Number of Meetings per Year

COMMITTEE	Number of Directors	Management Directors	Nonmanagement Directors	Number of Meetings per Year
Audit	5	2%	98%	4
Compensation	5	7	93	3
Nominating	6	13	87	2
Executive	7	35	65	8
Finance	7	33	67	6
Other	6	19	81	8

Compensation Committee

"Compensation of top management" was reported by more than three-quarters of the study respondents as the Board's strongest area of influence on management decisions. The Board's influence in this area is generally carried out through the Compensation Committee.

Overall, the prevalence of Compensation Committees was second only to Audit Committees among the responding companies. The incidence of this committee did not vary significantly by company size or by industry group. Eighty-eight percent of the respondents (compared to 74% and 61% in our 1981 and 1979 studies, respectively) reported having a Compensation Committee.

The Compensation Committee is composed, on average, of four members and meets three times per year. Ninety-four percent of its members are nonmanagement directors. These results show no substantial change in the size or composition of the membership and the number of meetings from our study of four years ago.

The Compensation Committee plays both a strategic and an administrative role. Strategically, a Compensation Committee should consider how the overall goals and objectives of the corporation can be achieved through an appropriate compensation philosophy. Administratively, the committee reviews salary progression, bonus allocations, stock awards, and the awards of supplemental benefits, as well as perquisites for key executives.

The Compensation Committee is responsible for approving the compensation arrangements for the corporation's senior management. This committee should also approve the adoption of any compensation plans in which officers and directors of the corporation are eligible to participate, as well as the granting of stock options or other benefits under such plans. Other responsibilities of the Compensation Committee may include the following:

- Approving compensation philosophy and guidelines for the entire executive and managerial group.
- Serving in a review function overseeing the role and performance of the chief executive, especially as this affects compensation.
- Establishing an appropriate compensation level for the CEO based on a review of compensation practices for CEOs and executives in their own industry as well as other industries. The review should also consider the company's compensation philosophy, goals, and objectives.
- Reviewing the chief executive's recommendations for the compensation, including bonus allocation, of individuals in the management group.
- Reviewing the management succession program. Since the Compensation Committee must review the performance of all key personnel to determine compensation allocation, this group is uniquely equipped with an in-

depth knowledge of management's strengths and weaknesses.

Just as the Audit Committee has access to outside advisers to determine the integrity of the firm's financial controls, the Compensation Committee also frequently relies on outsiders to assist in its review of compensation levels and programs. Generally, the Compensation Committee receives the recommendations of the chief executive, conducts its own analysis of compensation data, and frequently either retains its own outside expertise or relies on outside advisers hired by the corporation.

In many instances, the Compensation Committee will meet with such outside advisers/consultants to ascertain their views on the adequacy of the company's compensation structure and its competitiveness compared with other companies in the same industry and with companies of the same size in different industries.

The Compensation Committee is generally not concerned with the individual compensation of all employees, but concentrates its efforts on programs and policies relative to the compensation of key executives. The committee must be independent of management so that it can become a truly effective tool for corporate governance on behalf of stockholders and can provide management with objective guidance and support in matters concerning compensation.

Nominating Committee

During 1982, 54% of the responding companies added at least one new director to the Board. Of these companies, over 75% added one or more nonmanagement directors and nearly 25% reported adding two or more nonmanagement directors. Board vacancies for 1983 and 1984 are expected by over one-half of the participants. The Nominating Committee will play a key role in filling these vacancies.

The Nominating Committee is a relatively recent phenomenon. In our last study, we reported a prevalence of 34%, and in our study of four years ago, this figure was reported as 19%.

In this year's study, almost one-half of the responding companies reported having a Nominating Committee. Although there was little variation in prevalence among industry groups, there were significant differences in this committee's frequency by company size. Larger companies were much more likely to have a Nominating Committee than smaller companies. Two-thirds of the companies with sales or assets over $1 billion reported having a Nominating Committee, compared to an average of 22% of the companies with sales or assets of less than $50 million.

The Nominating Committee meets less often than the Audit and Compensation Committees Our data showed that, on average, it meets twice a year, although almost 10% of the Nominating Committees did not meet at all during the year.

Nominating Committees average five members, 84% of whom are nonmanagement directors. These figures are similar to our findings in earlier studies.

The Nominating Committee's basic responsibility is to thoroughly search and screen candidates for Board vacancies. To fulfill this responsibility, the Nominating Committee should consider the broader issues of composition and organization of the Board, including committee assignments and individual Board membership.

In addition, the Nominating Committee should review candidates recommended by the CEO, other members of the Board, individual shareholders, and other interested parties. Because the CEO is in an excellent position to understand the personnel needs of the Board, the Nominating Committee should work closely with the CEO to develop candidate specifications for Board membership. In order to identify and generate information about the most desirable Board candidates, the Nominating Committee in many instances establishes a resource system, which draws upon the assistance of both staff members and outside advisers.

The Nominating Committee should discuss potential candidates with the full Board prior to discussions with the candidates themselves. This gives

Board members a chance to express any reservations they may have about a potential candidate and precludes the possibility that the Board will later have to deny the nomination of a candidate who has already been asked whether he or she would like to serve.

Nominating Committees, and the nonmanagement directors who serve on them, also play a key role in selecting key corporate executives by evaluating internal and external candidates. For this reason, Nominating Committees also are assigned the task of reviewing top management succession planning.

Candidates recommended for Board membership come from a variety of sources (see Table 19). Companies in our study cited prior contact with the CEO and with other Board members most frequently as sources of new nonmanagement directors. The Nominating Committee, either through its own efforts or through the use of outside advisers and search consultants, was cited as the next most frequent source of new candidates.

Just as the Audit and Compensation Committees have access to outside advisers to fulfill their responsibilities, the Nominating Committee is relying more and more on outside advisers, not only to screen candidates, but to provide greater assurance of independence in the selection of candidates—independence both in fact as well as in appearance. This takes place through reliance on the advice of an outsider, such as legal counsel or investment banker, and through an executive search consultant retained to locate and screen a number of candidates.

Table 19
SOURCES OF NEW DIRECTORS:
Percentage of Companies Citing Each Source

SOURCE	Manufacturing Group	Non-manufacturing Group	Financial Services Group
Known to CEO	76%	84%	76%
Known to Member of Nominating Committee	43	53	55
Known to Other Board Members	70	78	71
Known to Senior Management	27	39	38
Referred by Stockholder	3	6	10
Referred by Bank, Investment Banker, Financial Institution	2	3	5
Referred by Outside Legal Counsel	4	5	0
Referred by Outside Accounting Firm	1	2	0
Referred by Search Firm/Consultant	9	5	2
Other	4	8	17

This year's figures on the sources of new directors indicate that as the Nominating Committee has become more prevalent among Boards, it has also started to become institutionalized and is recognized as an efficient form of introducing potential new Board members to the company.

The growing use of this committee also reflects the greater proportion of nonmanagement Board members and the continued emphasis on developing a Board that is independent of management.

A Board of Directors is only as strong and effective as the individuals who serve on it. Therefore, the long-term effectiveness of the Nominating Committee lies in its ability to create a strong, viable, and dynamic Board that can work effectively with management in meeting the challenges facing the corporation.

The Nominating Committee is the keystone Board committee in developing a Board of Directors that is independent of management. Without a strong Nominating Committee made up of nonmanagement directors, new members of the Board tend to be selected by management. Such candidates may be somewhat less objective in reviewing management's performance and plans than if they were independently proposed by nonmanagement members of the Board.

Executive Committee

The purpose of establishing an Executive Committee and granting it broad powers is to assure that important matters that arise between Board meetings and that cannot wait for the next scheduled meeting will receive timely attention. The Executive Committee also serves as a sounding board for general management problems or matters that affect the corporation as a whole.

Companies often assign retired CEOs or other senior management executives of the company to serve on this committee. This helps keep them involved in the management process. The chairmen of key Board committees also frequently serve as members of the Executive Committee.

Executive Committees are more prevalent today than they were four years ago. Overall, 66% of the companies in our study reported having an Executive Committee, compared to 64% and 51% in our 1981 and 1979 studies, respectively. Financial services companies reported this committee much more frequently than either manufacturing or nonmanufacturing companies; 83% of the financial services companies reported having an Executive Committee compared to 62% and 64% for the manufacturing and nonmanufacturing industries, respectively. The prevalence of this committee among financial services companies reflects the large size of their full Boards (eighteen members compared to eleven reported for both manufacturing and nonmanufacturing companies) and the need for frequent review of operating business decisions between full Board meetings.

On average, the Executive Committee is made up of six members, and it meets five times a year, more frequently than any other committee. Almost 25% of the Executive Committees, however, did not meet formally during the year. In a number of cases, matters requiring Executive Committee attention were handled through informal teleconferences. Nonmanagement members comprise the majority of the committee's membership, averaging 55% in all companies that reported having this committee. This percentage is lower than that of any other committee, and it may reflect the committee's large management role. In financial services companies, these committees tend to be larger than average —seven members compared to five in the other industry groups. On average, these committees also meet more frequently in financial services companies—eight times a year compared to five times in the other industry groups. These findings are similar to those of previous studies.

Finance Committee

Finance Committees were reported by only 24% of the companies surveyed—far fewer than any other committee, but more than the 21% in our 1981 study and the 16% reported in our study four years ago. There was little variance among the industry groups in this regard. In both the manufacturing and nonmanufacturing industry groups, the Finance Committee was more prevalent in larger companies, but this tendency was not evident among the financial services companies.

On average, Finance Committees have five members, 72% of whom are nonmanagement directors. The Finance Committee meets approximately four times a year. In financial services companies, the Finance Committee, like the Executive Committee, tends to be larger than those of other industry groups (seven versus five members) and to hold more frequent meetings (six times a year versus three meetings in manufacturing companies and five in nonmanufacturing companies). Again, these findings are similar to those of previous studies.

As for its responsibilities, the Finance Committee is primarily involved with financial decisions and planning. Its duties include:

- Keeping informed on a timely basis about the company's financial status.
- Evaluating the financial information it receives and developing conclusions as to any plan of action that is needed.
- Advising corporate management, as well as the Board, on financial matters. In some cases, the Finance Committee has the authority to act for the full Board between meetings, but generally it is not empowered to act on its own.

Board Compensation

The increase in the proportion of nonmanagement directors on Boards of Directors and the increased role of the Board in corporate governance have brought greater pressure to attract and retain high-quality outside Board members. Likewise, the importance of an appropriate compensation and benefits package has increased with the proportion of nonmanagement Board members. This is especially true in light of the tendency today for individuals to serve on fewer Boards and to be more selective with respect to the Boards on which they will serve.

Virtually all of this year's study participants reported paying their nonmanagement directors some form of cash compensation. Eighty-two percent of the respondents reported paying both an annual retainer and a per-meeting fee. This number did not vary significantly by industry group. On average, 12% of the manufacturing and nonmanufacturing companies paid an annual retainer only, and 5% paid a meeting fee only. These proportions were reversed in the financial services industry group, where 5% reported paying an annual retainer only and 12% paid a meeting fee only.

In general, compensation in the manufacturing industry group was highest, followed by nonmanufacturing and financial services. Within each of these segments, directors receiving both an annual retainer and a per-meeting fee received the highest total compensation, followed at a slightly lower level by directors receiving an annual retainer only, and at a much lower level by directors receiving a per-meeting fee only.

From 1982 to 1983, compensation increased less than it has in previous years. Overall, compensation increased 6% above 1982 levels for companies paying a combined retainer and meeting fee, 4% for companies paying a retainer only, and 8% for companies paying a meeting fee only. For all forms combined, the figure was 6%. In the industry groups, compensation increased 8% in financial services companies, 6% in

Table 20
MANUFACTURING GROUP:
Compensation of Nonmanagement Directors, by Sales Volume

	Retainer and Meeting Fee		Retainer Only		Meeting Fee Only	
SALES VOLUME	Percentage of Companies Paying	Average Amount Paid	Percentage of Companies Paying	Average Amount Paid	Percentage of Companies Paying	Average Amount Paid
Under $25 Million	55%	$ 5,020	0%	*	36%	$ 570
$25–50	54	8,150	23	$ 5,750	23	440
$50–100	83	7,260	10	9,500	7	1,050
$100–200	78	9,320	20	10,030	2	*
$200–500	78	11,650	17	13,070	5	940
$500–1 Billion	88	14,100	12	16,700	0	*
$1–2	91	17,530	9	22,330	0	*
$2–5	93	22,130	7	17,500	0	*
$5–10	100	23,410	0	*	0	*
Over $10 Billion	82	25,530	18	28,430	0	*
All Levels	82	14,230	13	13,590	5	700

*Insufficient data

Table 21
NONMANUFACTURING GROUP:
Compensation of Nonmanagement Directors, by Sales Volume

	Retainer and Meeting Fee		Retainer Only		Meeting Fee Only	
SALES VOLUME	Percentage of Companies Paying	Average Amount Paid	Percentage of Companies Paying	Average Amount Paid	Percentage of Companies Paying	Average Amount Paid
Under $25 Million	20%	*	0%	*	60%	$530
$25–50	46	6,000	36	$13,500	18	*
$50–100	84	11,330	8	*	8	*
$100–200	71	9,880	21	*	8	*
$200–500	79	9,190	14	10,800	7	*
$500–1 Billion	89	12,610	11	*	0	*
$1–2	84	14,560	12	13,670	4	*
$2–5	97	17,790	0	*	3	*
$5–10	100	24,780	0	*	0	*
Over $10 Billion	100	21,970	0	*	0	*
All Levels	81	13,390	12	11,450	7	520

*Insufficient data

nonmanufacturing companies, and 5% in manufacturing companies. This lower rate of increase in Board compensation reflects the economic conditions of 1982: lower inflation, reduced corporate performance, and lower compensation increases for executives in general.

The outlook for director compensation in 1983 suggests a continuation of moderate increases. Overall, only 29% of the companies indicated that they are considering increasing director compensation within the year. This figure did not vary by industry group. In the near term, while increases in cash compensation will be moderate in order to attract Board candidates, more attention will be given to benefits, perquisites, and noncash remuneration.

Tables 20 through 22 provide information on compensation methods and levels by company size and industry group. Table 23 provides the same data for the individual industries.

Companies Paying Both Retainers and Meeting Fees

In general, the use of a combination of retainer and meeting fee to compensate nonmanagement directors increased with company size. This trend existed in all industry groups surveyed.

Overall, an average of 76% of the companies with sales or assets below $1 billion used both types of compensation, compared to 91% of the companies with sales or assets over $1 billion. As shown in Tables 20 through 22, there was little variation among the three industry groups in the percentage of companies using this method. Manufacturing companies were just as likely (82%) to pay both a retainer and a meeting fee as companies in the nonmanufacturing (81%) and financial services (83%) industries.

On average, total compensation paid to directors was slightly higher in companies that paid a combined re-

tainer and meeting fee than in companies that paid a retainer only ($13,650 when all meetings were attended versus $12,890). And it was substantially greater than compensation paid to directors in companies that paid a meeting fee alone ($3,030 if all meetings were attended). Total compensation paid to Board members generally increased with company size, regardless of industry group.

On average, manufacturing companies that used the combination method of payment paid their directors more than companies in either the nonmanufacturing ($14,230 if all meetings are attended versus $13,390) or the financial services industry group ($11,650).

The compensation gap among industry groups has narrowed considerably since our last study. Compensation based on this method of payment in manufacturing companies was only 6% higher than the level found in the nonmanufacturing group, compared to a 30% difference two years ago. Our current study also showed that the manufacturing group was 22% ahead of the financial services group.

On an individual industry basis, the primary metals and petroleum industries paid the highest average level of compensation ($22,940 and $22,420, respectively). Directors in the wholesale trade and textiles and apparel industries received the lowest average total remuneration ($9,970 and $10,460, respectively). Since compensation tends to increase with company size, much of this difference in compensation levels can be attributed to the larger relative size of companies in the petroleum and primary metals industries.

Companies Using the Retainer-Only Method

Use of the retainer-only form of compensation was more prevalent among manufacturing and nonmanufacturing companies than among financial services companies. Similar to findings reported for companies using the combined compensation method, compensation increased with com-

Table 22
FINANCIAL SERVICES GROUP:
Compensation of Nonmanagement Directors, by Assets

	Retainer and Meeting Fee		Retainer Only		Meeting Fee Only	
ASSETS	Percentage of Companies Paying	Average Amount Paid	Percentage of Companies Paying	Average Amount Paid	Percentage of Companies Paying	Average Amount Paid
Under $50 Million	67%	*	0%	*	0%	*
$50–100	100	$12,500	0	*	0	*
$100–200	40	*	40	*	20	*
$200–500	57	10,700	0	*	43	$ 270
$500–1 Billion	67	13,140	0	*	33	*
$1–2	70	6,410	0	*	30	1300
$2–5	92	9,870	4	*	4	*
$5–10	93	12,440	7	*	0	*
Over $10 Billion	100	16,760	0	*	0	*
All Levels	83	11,650	5	$10,150	12	580

*Insufficient data

Table 23
INDIVIDUAL INDUSTRIES: Compensation of Nonmanagement Directors

	Retainer and Meeting Fee		Retainer Only		Meeting Fee Only	
	Percentage of Companies Paying	Average Amount Paid	Percentage of Companies Paying	Average Amount Paid	Percentage of Companies Paying	Average Amount Paid
MANUFACTURING GROUP						
Durable Goods						
Basic Materials	87%	$12,090	7%	•	6%	$ 570
Electrical Machinery	87	13,610	10	$10,500	3	•
Fabricated Metal Products	75	11,820	25	12,980	0	•
Instruments	72	10,550	21	10,040	7	•
Machinery	84	12,280	7	11,480	8	530
Primary Metals	75	22,940	25	14,630	0	•
Transportation Equipment	89	16,840	11	•	0	•
Nondurable Goods						
Chemicals	78	18,200	22	18,980	0	•
Food Products	93	15,750	3	•	4	•
Paper Products	83	14,820	17	•	0	•
Petroleum	80	22,420	13	22,830	7	•
Publishing	76	11,650	18	10,330	6	•
Textiles and Apparel	78	10,460	7	•	15	1000
NONMANUFACTURING GROUP						
Business Services	57	11,730	22	15,330	21	570
Communications	83	14,380	0	•	17	•
Construction and Contracting	100	13,970	0	•	0	•
Mining	90	16,040	5	•	0	•
Retail Sales	67	14,080	24	10,030	9	•
Transportation	83	18,380	0	•	17	•
Utilities	98	11,650	0	•	2	•
Wholesale Trade	67	9,970	20	•	13	•
FINANCIAL SERVICES GROUP						
Banking (Commercial)	78	10,940	4	•	16	250
Banking (Thrift Institutions)	87	11,160	0	•	13	•
Financial Holding and Investment	89	13,880	11	•	0	•
Insurance	67	13,630	0	•	33	•

•Insufficient data

pany size, regardless of industry group. The manufacturing group reported the highest average annual retainer ($13,590), followed by the nonmanufacturing group ($11,450) and the financial services group ($10,150).

Companies Using the Fee-Only Method

The results of our study showed that the fee-only method of compensation was used primarily by the smaller companies. Of the companies with sales above $1 billion, none of the manufacturing companies and only 1% of the nonmanufacturing companies reported using this method. Less than 5% of the financial services companies with assets greater than $1 billion reported paying only a meeting fee. In contrast, almost one-third of the companies with sales or assets of less than $50 million used the fee-only method.

Overall, financial services companies reported the most frequent use of the fee-only method of payment (12% compared to 5% in the manufacturing industry group and 7% in the nonmanufacturing industry group). This may be because companies in the financial services industry tend to have larger Boards and more frequent meetings than the other companies in our study.

Board members who are paid a meeting fee only, on average, earned several thousand dollars less than their counterparts, regardless of industry group. Assuming all meetings were attended, directors who were paid by this method earned an average of $3,110 in the manufacturing industry group, $2,520 in the nonmanufacturing industry group, and $3,450 in the financial services industry group. Directors who were paid by other methods earned an average of over $10,000, regardless of industry group.

Compensation of Management Directors

In most instances, management directors are compensated as employees and do not receive extra compensation for their work on the Board. In this year's study, only 14% of the survey respondents reported compensating their management directors, compared to 15% in our previous study. Nonmanufacturing and financial services companies were most likely to provide compensation (18%), while manufacturing companies reported the smallest incidence of payment (9%). Most companies that compensated management directors used the meeting-fee-only method.

Table 24 shows the relative use of the three methods of compensation for management directors and the amounts paid.

Director Expenses and Benefits

Ninety-one percent of the responding companies reported paying the expenses incurred by nonmanagement directors in attending meetings. This was approximately the same percentage as in our previous study. The prevalence of reimbursing or paying these expenses by industry group ranged from a low of 79% in the financial services group to a high of 94% in the manufacturing group. All responding companies in the transportation equipment, petroleum, publishing, mining, insurance, and thrift industries reported paying director expenses. Commercial banking and financial holding and investment companies were least likely to pay these expenses (73% and 76%, respectively).

Although nonmanagement directors are not considered employees, certain benefits have become an expected part of the compensation package. Others have become prevalent as companies have tried to make the total compensation package more appropriate.

The most common benefit is liability insurance. It was reported by 81% of the respondents. This is a sharp increase over the 55% reported in our 1981 study. In our current study, life insurance was reported by 15% of the companies, and accidental death and dismemberment (AD&D) insurance was reported by 20%.

Medical and dental programs were less common, reported by 6% and 4%, respectively. A likely explanation for this lack of coverage is that nonmanagement directors employed by other companies are usually included in the life, health, and AD&D insurance programs where they work.

Table 24
ALL INDUSTRY GROUPS:
Compensation of Management Directors

	Retainer and Meeting Fee		Retainer Only		Meeting Fee Only	
	Percentage of Companies Paying	Average Amount Paid	Percentage of Companies Paying	Average Amount Paid	Percentage of Companies Paying	Average Amount Paid
Manufacturing	2%	$ 8,370	2%	$6,820	5%	$420
Nonmanufacturing	2	14,650	3	7,280	13	390
Financial Services	8	8,400	1	*	9	650

*Insufficient data

Thirty-four percent of the companies surveyed provided college matching gifts. Primarily, it was the larger companies that included directors in this program. It is likely that more of these companies offer college matching gift programs to their employees than do smaller businesses, and these companies simply include the directors in the program. The highest incidence of this benefit was noted in the manufacturing industry group (41%), and the lowest incidence was observed in the financial services industry group (14%).

A new benefit that has become popular recently is the deferred compensation plan. Deferred compensation plans allow directors to collect payment for their Board service after retirement when their total income is likely to be less and may be taxed at a lower rate. One of the reasons for the increased prevalence of these plans is the limit imposed on pension contributions and benefits by the Employee Retirement Income Security Act (ERISA) and the Tax Equity and Fiscal Responsibility Act (TEFRA). These Acts have limited the amount of retirement income that can be provided by the director's regular employer, which means that directors are now interested in finding ways to supplement their retirement income.

Deferred compensation plans were reported by 43% of the respondents in our study. They were more prevalent in financial services companies (57%) than in either manufacturing (42%) or nonmanufacturing (38%) companies.

Tables 25 through 27 provide data on payment of expenses and insurance benefits to nonmanagement directors by company size for each industry group. Table 28 provides the same data for the individual industries. Tables 29 through 31 provide data on other benefits provided to nonmanagement directors by company size for each industry group. Table 32 provides the same information for each industry.

Committee Compensation

Committee service by Board members continues to be recognized with additional compensation. Over 80% of the nonmanagement directors serving on committees were compensated for their committee activities. Furthermore, almost one-third of the committee chairmen received additional compensation above that paid to other committee members. In contrast, few management directors (3%) received compensation for committee service.

The predominant method of paying nonmanagement committee members was by meeting fee only. This method was reported by 69% of the companies. The retainer-only and the combination retainer-and-meeting-fee methods were used about equally; each was reported by approximately 5% of the companies.

Additional compensation paid to the committee chairman is made primarily through the retainer-only method, reported by 19% of the companies

Table 25
MANUFACTURING GROUP:
Percentage of Companies Paying Expenses and Providing Insurance Benefits, by Sales Volume

SALES VOLUME	Expense Reimbursement	Liability Insurance	Life Insurance	Accidental Death and Dismemberment Insurance	Medical Insurance	Dental Insurance
Under $25 Million	100%	100%	0%	0%	0%	0%
$25–50	81	88	6	0	0	0
$50–100	91	89	17	11	11	3
$100–200	96	78	15	26	9	7
$200–500	94	75	19	26	6	4
$500–1 Billion	94	81	14	22	0	0
$1–2	94	91	16	22	0	0
$2–5	98	83	19	26	11	6
$5–10	88	75	13	38	0	0
Over $10 Billion	94	76	24	47	12	12
All Levels	94	82	16	23	6	4

Table 26
NONMANUFACTURING GROUP:
Percentage of Companies Paying Expenses and Providing Insurance Benefits, by Sales Volume

SALES VOLUME	Expense Reimbursement	Liability Insurance	Life Insurance	Accidental Death and Dismemberment Insurance	Medical Insurance	Dental Insurance
Under $25 Million	67%	33%	0%	0%	0%	0%
$25–50	100	75	13	25	13	0
$50–100	90	80	30	20	10	10
$100–200	100	100	0	0	0	0
$200–500	88	79	8	4	4	4
$500–1 Billion	82	76	6	24	6	0
$1–2	91	83	13	13	9	4
$2–5	93	83	17	17	10	7
$5–10	67	100	0	100	0	0
Over $10 Billion	100	67	33	33	0	0
All Levels	90	81	12	16	7	4

Table 27
FINANCIAL SERVICES GROUP:
Percentage of Companies Paying Expenses and Providing Insurance Benefits, by Assets

ASSETS	Expense Reimbursement	Liability Insurance	Life Insurance	Accidental Death and Dismemberment Insurance	Medical Insurance	Dental Insurance
Under $100 Million	80%	100%	0%	40%	0%	0%
$100–200	80	100	20	20	20	0
$200–500	60	80	20	0	20	20
$500–1 Billion	67	100	0	0	0	0
$1–2	60	100	0	0	0	0
$2–5	68	64	9	14	9	9
$5–10	100	85	23	23	8	8
Over $10 Billion	100	100	33	0	0	0
All Levels	79	84	14	13	7	6

overall, and through the meeting-fee-only method, reported by 10% of the companies overall. Only 2% of the companies paid the chairman both an additional retainer and an additional meeting fee.

Of the few companies that reported paying management director committee members, more used the meeting-fee-only approach than the retainer-only method. None reported paying both an additional retainer and per-meeting fee.

Compensation paid to nonmanagement committee members varied in prevalence and amount by type of committee, by industry group, and by method of payment. The manufacturing industry group tended to pay the highest compensation, the nonmanufacturing industry group, the lowest. Committee members paid both a retainer and a meeting fee received the highest compensation; those paid a meeting fee only, the lowest. Members of the Finance and Executive Committees received the largest amounts, and depending on the method of compensation, the Audit, Nominating, and Compensation Committees received the smallest amounts.

Tables 33 through 35 show the percentage of companies compensating nonmanagement committee members and the amounts paid for work on each type of committee by industry group.

Tables 36 through 38 show the percentage of companies paying an additional amount to the committee chairman and the additional amounts paid.

Table 28
INDIVIDUAL INDUSTRIES:
Percentage of Companies Paying Expenses and Providing Insurance Benefits

	Expense Reimbursement	Liability Insurance	Life Insurance	Accidental Death and Dismember-ment Insurance	Medical Insurance	Dental Insurance
MANUFACTURING GROUP						
Durable Goods						
Basic Materials	93%	93%	14%	21%	0%	0%
Electrical Machinery	97	79	15	21	3	0
Fabricated Metal Products	92	85	38	15	15	8
Instruments	92	79	17	38	13	8
Machinery	98	82	18	14	10	10
Primary Metals	93	80	13	33	0	0
Transportation Equipment	100	69	31	25	19	13
Nondurable Goods						
Chemicals	95	88	8	33	0	0
Food Products	91	91	17	26	4	4
Paper Products	90	80	20	40	10	0
Petroleum	100	71	21	21	0	0
Publishing	100	73	20	33	0	0
Textiles and Apparel	79	74	5	11	16	0
NONMANUFACTURING GROUP						
Business Services	89	89	22	11	22	0
Communications	83	83	17	17	0	0
Construction and Contracting	83	50	0	0	0	0
Mining	100	93	14	21	7	7
Retail Sales	87	57	4	0	4	0
Transportation	90	90	10	40	30	30
Utilities	88	86	12	23	2	0
Wholesale Trade	91	91	18	9	0	0
FINANCIAL SERVICES GROUP						
Banking (Commercial)	73	86	11	5	3	3
Banking (Thrift Institutions)	100	75	13	25	13	13
Financial Holding and Investment	76	82	12	24	12	6
Insurance	100	80	60	20	20	20

Table 29
MANUFACTURING GROUP:
Percentage of Companies Providing Other Benefits, by Sales Volume

SALES VOLUME	Stock Purchase Plan	Stock Option Plan	Deferred Compensation Plan	Pension Plan	College Matching Gifts
Under $25 Million	20%	20%	0%	0%	0%
$25–50	0	6	19	0	13
$50–100	0	11	20	3	14
$100–200	2	15	22	0	9
$200–500	0	3	31	6	28
$500–1 Billion	0	0	56	3	56
$1–2	0	0	50	19	47
$2–5	4	0	72	15	78
$5–10	0	0	75	0	88
Over $10 Billion	0	0	65	6	88
All Levels	1	5	42	7	41

Table 30
NONMANUFACTURING GROUP:
Percentage of Companies Providing Other Benefits, by Sales Volume

SALES VOLUME	Stock Purchase Plan	Stock Option Plan	Deferred Compensation Plan	Pension Plan	College Matching Gifts
Under $25 Million	0%	100%	0%	0%	0%
$25–50	13	13	0	0	0
$50–100	0	10	10	0	0
$100–200	0	10	20	0	0
$200–500	0	0	21	4	0
$500–1 Billion	6	0	53	6	41
$1–2	4	0	48	0	43
$2–5	0	0	55	7	59
$5–10	33	0	100	0	67
Over $10 Billion	0	0	67	33	33
All Levels	3	5	38	4	28

Table 31
FINANCIAL SERVICES GROUP:
Percentage of Companies Providing Other Benefits, by Assets

ASSETS	Stock Purchase Plan	Stock Option Plan	Deferred Compensation Plan	Pension Plan	College Matching Gifts
Under $100 Million	0%	0%	40%	0%	20%
$100–200	0	40	0	0	0
$200–500	0	0	40	0	0
$500–1 Billion	0	0	50	17	17
$1–2	40	0	60	0	0
$2–5	0	0	64	9	9
$5–10	8	0	69	0	23
Over $10 Billion	0	0	78	0	33
All Levels	4	3	57	4	14

Table 32
INDIVIDUAL INDUSTRIES: Percentage of Companies Providing Other Benefits

	Stock Purchase Plan	Stock Option Plan	Deferred Compensation Plan	Pension Plan	College Matching Gifts
MANUFACTURING GROUP					
Durable Goods					
Basic Materials	0%	3%	38%	7%	31%
Electrical Machinery	3	9	21	6	21
Fabricated Metal Products	8	8	38	23	54
Instruments	0	13	25	0	21
Machinery	2	0	53	8	29
Primary Metals	0	7	27	7	53
Transportation Equipment	0	6	38	0	50
Nondurable Goods					
Chemicals	3	5	55	8	60
Food Products	0	0	39	4	43
Paper Products	0	10	60	10	80
Petroleum	0	0	57	0	71
Publishing	0	7	47	7	40
Textiles and Apparel	0	5	37	5	42
NONMANUFACTURING GROUP					
Business Services	11	11	11	0	22
Communications	0	17	33	17	33
Construction and Contracting	0	17	67	0	67
Mining	0	7	43	7	36
Retail Sales	0	4	22	4	9
Transportation	0	0	50	10	40
Utilities	7	0	51	2	37
Wholesale Trade	0	0	27	0	9
FINANCIAL SERVICES GROUP					
Banking (Commercial)	3	0	59	3	14
Banking (Thrift Institutions)	*	*	75	0	13
Financial Holding and Investment	0	12	59	6	18
Insurance	0	0	40	20	20

*Insufficient data

Table 33
MANUFACTURING GROUP:
Percentage of Companies Compensating Committees (Nonmanagement Directors)

	Retainer and Meeting Fee		Retainer Only		Meeting Fee Only	
COMMITTEE	Percentage of Companies Paying	Average Amount Paid	Percentage of Companies Paying	Average Amount Paid	Percentage of Companies Paying	Average Amount Paid
Audit	8%	$4,730	6%	$2,340	70%	$520
Compensation	5	4,840	6	2,550	68	530
Nominating	4	4,470	5	2,670	68	540
Executive	4	8,160	5	4,570	55	540
Finance	5	4,080	9	5,490	61	590
Other	6	4,280	10	2,130	67	550

Table 34
NONMANUFACTURING GROUP:
Percentage of Companies Compensating Committees (Nonmanagement Directors)

	Retainer and Meeting Fee		Retainer Only		Meeting Fee Only	
COMMITTEE	Percentage of Companies Paying	Average Amount Paid	Percentage of Companies Paying	Average Amount Paid	Percentage of Companies Paying	Average Amount Paid
Audit	5%	$4,610	3%	$1,110	77%	$490
Compensation	5	3,990	1	*	72	490
Nominating	5	3,090	1	*	78	470
Executive	4	4,360	5	2,140	61	480
Finance	5	*	0	*	74	500
Other	4	*	4	*	67	510

*Insufficient data

Table 35
FINANCIAL SERVICES GROUP:
Percentage of Companies Compensating Committees (Nonmanagement Directors)

	Retainer and Meeting Fee		Retainer Only		Meeting Fee Only	
COMMITTEE	Percentage of Companies Paying	Average Amount Paid	Percentage of Companies Paying	Average Amount Paid	Percentage of Companies Paying	Average Amount Paid
Audit	5%	$7,230	7%	$3,250	82%	$370
Compensation	0	*	9	2,570	77	380
Nominating	0	*	2	*	78	420
Executive	0	*	6	5,880	70	400
Finance	0	*	5	*	68	390
Other	0	*	0	*	77	340

*Insufficient data

Table 36
MANUFACTURING GROUP:
Percentage of Companies Compensating Committees (Chairmen)

COMMITTEE	Percentage Paying an Additional Amount	Additional Amount Paid
Audit	38%	$2,980
Compensation	37	2,990
Nominating	32	2,000
Executive	14	5,390
Finance	39	2,680
Other	41	2,510

Table 37
NONMANUFACTURING GROUP:
Percentage of Companies Compensating Committees (Chairmen)

COMMITTEE	Percentage Paying an Additional Amount	Additional Amount Paid
Audit	33%	$1,790
Compensation	31	1,580
Nominating	23	1,710
Executive	17	4,190
Finance	31	2,710
Other	37	1,780

Table 38
FINANCIAL SERVICES GROUP:
Percentage of Companies Compensating Committees (Chairmen)

COMMITTEE	Percentage Paying an Additional Amount	Additional Amount Paid
Audit	47%	$3,310
Compensation	42	2,390
Nominating	32	1,500
Executive	18	4,550
Finance	9	950
Other	31	6,660